



Excise Tax Advisory

Excise Tax Advisories (ETAs) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

Number: 2012-8S.08.12.13601

Issue Date: March 31, 2003

Manufacturers' Machinery and Equipment Exemption — Computers

The Department has issued a series of Excise Tax Advisories (ETAs) to address questions regarding the retail sales and use tax exemption provided by RCW 82.08.02565 and 82.12.02565, commonly referred to as the manufacturers' machinery and equipment exemption (M&E exemption). This advisory, ETA 2012-8S, is issued to address the application of the M&E exemption to computers. Please refer to ETA 2012.08.12.13601 for a current list of the issues covered by this series.

The Department has been asked to provide guidance on the eligibility of computer systems, and hardware and peripherals.

Computer hardware and peripherals qualify for the M&E exemption if used directly in a qualifying operation. Peripherals include keyboards, monitors, mouse devices, and other accessories that operate outside of the computer.

Rule 13601 provides that computers qualify if they "direct or control machinery or equipment that acts upon or interacts with tangible personal property;" or "if they act upon or interact with an item of tangible personal property." Computers also qualify if they meet any of the other "used directly" tests. These additional tests are:

- Conveys, transports, handles, or temporarily stores an item of tangible personal property at the manufacturing site or testing site;
- Controls, guides, measures, verifies, aligns, regulates, or tests tangible personal property at the site or away from the site;
- Provides physical support for or access to tangible personal property;
- Produces power for, or lubricates machinery and equipment;
- Produces another item of tangible personal property for use in the manufacturing operation, testing operation, or research and development operation;
- Places tangible personal property in the container, package, or wrapping in which the tangible personal property is normally sold or transported; or
- Is integral to research and development as defined in RCW 82.63.010.

Advisories numbered as 2 plus three digits (e.g. 2002.16.179) are advisories issued on or after July 2, 1998.

To inquire about the availability of receiving this document in an alternate format for the visually impaired or assistance in language other than English, please call (360) 486-2342. Teletype (TTY) users please call 1-800-451-7985.

Please direct comments to:
Department of Revenue
Legislation & Policy Division
P O Box 47467
Olympia, WA 98504-7467
eta@DOR.wa.gov

Computer systems and networks

“Computer systems” is not a term that has any special meaning in the M&E statute. However, if it can be shown that an assemblage of computers acts as an integrated unit, with the various components acting upon each other and interacting together, the system itself qualifies as machinery and equipment if used directly in a qualifying operation. System components include fiber optic or copper cables and wires that distribute data throughout a system. To be viewed as an integrated unit it must be shown that the components are linked through steps and processes and that all of the components contribute to the overall process and are used in the manufacturing operation. An integrated computer system functions as a whole, and requires the various components to complete its work.

A network should be examined separately from an integrated computer system. A network is not necessarily an “integrated system. Generally a computer network is considered to be a combination of computers connected electronically. The term “network” is used to denote communication capabilities. Parts of a network might use the integrated system, but are not needed to make the integrated system operate. Workstations are examples of this. Each workstation must be individually examined to determine whether it is “used directly” in a qualifying operation.

Manufacturing operation issues

Some computer equipment and systems are used for both qualifying and nonqualifying purposes. For example, writing a story for a book or a newspaper is an activity that takes place outside of the manufacturing operation – it is product development. Product development is not a qualifying activity under the M&E exemption because it is not part of the manufacturing operation. The M&E statute provides that “[m]anufacturing operation” means the manufacturing of articles, substances, or commodities for sale as tangible personal property. A manufacturing operation begins at the point where the raw materials enter the manufacturing site....” The bright line is that manufacturing does not begin until the product itself is developed and production can begin.

Taking the completed manuscript or the finished story and preparing it for printing is an activity that falls within the manufacturing operation. For example, using a computer system to take a manuscript and prepare it for printing or using a computer system to layout a newspaper is part of the manufacturing operation, provided the final product is tangible personal property. The essential questions are whether the final product, e.g., a book or a printed newspaper, is a manufactured product, and whether the use of the computer equipment or system meets a used directly test. See ETA 2012-5S for more information on design and a discussion of activities considered part of the manufacturing operation.

Majority use

Qualifying and nonqualifying uses of computers will be weighed against the majority use test. Computer equipment and computer systems that are used in a manner that satisfies the majority use test qualify for the exemption, provided they meet the other requirements of the exemption.